Public Bank (PBK MK)

1Q26: Articulates Special Dividend Plan

BUY (Maintained)	
Share Price	RM4.83
Target Price	RM5.65
Upside	+17.0%
Previous TP	RM5.55

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Highlights

- 1Q26 earnings were in line, with earnings representing 23% of our/consensus full-year estimates
- Management guided for a RM3.5b surplus capital release from the Jul 26 Basel III adoption, to be redistributed to shareholders via special dividends over three years.
- Maintain BUY with a higher target price of RM5.65 (1.73x 2026F P/B, ROE: 13.4%) from RM5.55 factoring in a higher ROE from the special dividends. We remain positive on Public Bank, supported by potential provisions write-backs and an attractive capital management runway.

1Q26 Results

Year to 31 Dec (RMm)	1Q26 (RMm)	1Q25 (RMm)	yoy % chg	4Q25 (RMm)	qoq % chg
Net Interest Income	2,387.5	2,380.4	0.3	2,421.9	(1.4)
Islamic Banking	469.2	448.1	4.7	461.8	1.6
Fees & Commissions	542.1	543.0	(0.2)	592.0	(8.4)
Net Investment Income	22.5	34.0	(33.8)	29.0	(22.3)
Other Operating Income	228.4	195.1	17.1	213.5	7.0
Total Income	3,649.8	3,600.6	1.4	3,718.2	(1.8)
Operating Expenses	(1,295.1)	(1,259.5)	2.8	(1,301.1)	(0.5)
PPOP	2,354.7	2,341.1	0.6	2,417.1	(2.6)
Provision on loans and investments	(56.0)	(43.4)	29.2	12.6	(543.6)
PBT	2,315.3	2,312.6	0.1	2,444.1	(5.3)
Net Profit	1,751.8	1,745.3	0.4	1,876.3	(6.6)
EPS (sen)	9.0	9.0	0.4	9.7	(6.6)
DPS (sen)	0.0	0.0	n.a.!	12.0	n.a.
BVPS (RM)	3.06	2.94	4.1	3.10	(1.4)
Financial Ratios (%)	1Q26 %	1Q25 %	yoy +/- ppt	4Q25 %	qoq +/- ppt
NIM	2.11	2.19	(0.08)	2.12	(0.01)
Loan Growth, yoy	5.1	6.1	(1.0)	5.1	0.0
Deposit Growth, yoy	3.7	4.0	(0.3)	3.2	0.5
Loan/Deposit Ratio	99.0	97.6	1.5	98.9	0.1
Cost/Income Ratio	35.5	35.0	0.5	35.0	0.5
ROE	11.8	12.2	(0.4)	12.7	(0.9)
NPL Ratio	0.5	0.5	(0.0)	0.5	(0.0)
Credit Costs (bp)	4.6	3.6	1.0	(1.5)	6.1
CET-1 CAR	13.7	14.0	(0.3)	13.9	(0.2)

Source: Public Bank, UOB Kay Hian

Analysis

- **In line.** Public Bank reported 1Q26 net profit of RM1.75b (+0.4% yoy, -6.6% qoq), broadly in line at 23% of our full-year forecast. 1Q26 earnings were flattish yoy, as strong unit trust sales were offset by an 8bp NIM compression. Qoq earnings declined 6%, mainly due to normalisation in net credit cost from a write-back in 4Q25 to a more normalised 5bp level, in the absence of further management overlay write-backs.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net interest income	9,451	9,584	9,971	10,572	11,217
Non-interest income	2,853	3,272	3,499	3,719	3,953
Net profit (rep./act.)	7,147	7,224	7,699	8,294	8,811
Net profit (adj.)	7,147	7,224	7,699	8,294	8,811
EPS (sen)	36.8	37.2	39.7	42.7	45.4
PE (x)	13.1	13.0	12.2	11.3	10.6
P/B (x)	1.6	1.6	1.5	1.5	1.5
Dividend yield (%)	4.3	4.7	6.2	6.6	7.0
Net int margin (%)	2.20	2.14	2.12	2.12	2.12
Cost/income (%)	34.5	34.9	34.7	34.3	34.2
Loan loss cover (%)	166.2	149.9	142.2	126.4	108.3
Consensus net profit			7,523	7,929	8,390
UOBKH/Consensus (x)			1.02	1.05	1.05

Source: Public Bank, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Financials
Bloomberg ticker	PBK MK
Shares issued (m)	19,410.7
Market cap (RMm)	93,753.6
Market cap (US$m)	23,596.5
3-mth avg daily t'over (US$m)	28.2

Price Performance (%)

52-week high/low				RM5.18/RM4.17
1mth	3mth	6mth	1yr	YTD
4.1	(4.2)	12.6	6.6	6.4

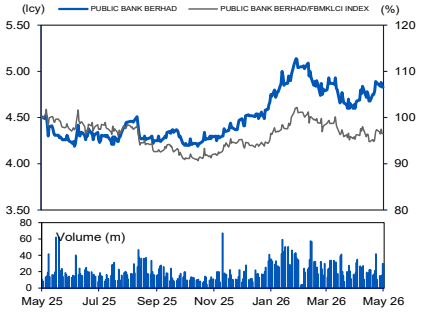
Major Shareholders

	%
Consolidated Teh Holdings Sdn Bhd	21.6
EPF	17.3

Balance Sheet Metrics

FY26F NAV/Share (RM)	3.17
FY26F CAR Tier -1 (%)	15.4

Price Chart



Source: Bloomberg

Company Description

Public Bank is the third-largest domestic banking group in Malaysia by assets with about 14.8% of system assets and 16.2% loan market share.

- **NIM recovering edged downwards.** 1Q26 NIM saw a slight 1bp dip largely attributed to intense competition for loans. Management is guiding for a mid-single-digit NIM compression for 2026.
- **Loans growth remained firm.** 1Q26 group loan growth remained steady at 5.7% annualised growth, driven by a domestic loan growth of 6.3%. By segment, SME and auto financing were the key growth drivers, expanding 19.0% and 8.4% respectively. Management alluded that loan growth is expected to remain resilient, supported by a healthy approval pipeline despite more cautious business investment sentiment amid elevated oil prices and ongoing geopolitical uncertainty. Management maintained its 4-5% loan growth guidance.
- **Asset quality remained solid.** GIL ratio remained stable at 0.51% (4Q25: 0.51%), with domestic GIL at 0.4%. Loan loss coverage remained robust at 147% (industry: 85%) and 251% including regulatory reserves (4Q25: 249%). Management overlays currently stand at RM800m, and our 2026 net credit cost forecast of 4bp (1Q26: 5bp) excludes any potential overlay write-backs, which management may consider depending on prevailing macroeconomic conditions.
- **Articulates a special dividend distribution plan.** Management guided for a RM3.5b release in surplus capital arising from Basel III adoption in Jul 26, which will be redistributed to shareholders via special dividends over a three-year period. This is incremental to its existing 60% recurring dividend payout policy, as well as its share buyback plan of up to 10% of paid-up capital. Assuming the special dividends are distributed evenly in the next three years, the overall payout ratio could rise to around 75% over the period. The capital optimisation is also expected to provide an estimated 70bp uplift to ROE.
- **Raising dividend assumptions.** We believe this should improve sentiment on the stock, following relatively lukewarm post-1Q26 results announcement sentiment previously due to the lack of firm guidance on potential capital returns despite ample capacity. Accordingly, we raise our 2026-28 dividend payout ratio forecast to 75% from 65% previously, lifting prospective yields to an attractive 6.2-6.6% for 2026/27.
- **2026 key guidance retained:** a) ROE: 12.0-13.0%; b) loan growth: 4-5%; c) non-interest income: double-digit percentage growth; d) net credit cost: single digit; e) NIM: mid-single-digit compression; and f) recurring dividend payout ratio of around 60%.
- **Overall management tone following 1Q26 results announcement remains fairly optimistic** on the group's operating outlook despite ongoing Middle Eastern tensions and elevated oil prices. Management broadly maintained its key guidance, including ROE guidance of 12-13%, which excludes the potential uplift of about 70bp from the planned special dividend distribution.

Valuation/Recommendation

- **Maintain BUY with a higher target price of RM5.65 (1.73x 2027F P/B, ROE: 13.5%) from RM5.55** after ROE revision on the back of higher dividend payout assumptions. The stock continues to trade at an attractive valuation of about -1.0SD below its historical mean P/BV. Additionally, the bank stands out as one of the largest beneficiaries of CET1 uplift from Basel III reforms, while its strong provision buffers position it well to withstand prevailing geopolitical and macroeconomic risks.

Earnings Revision/Risk

- No revision to earnings.

Share Price Catalyst

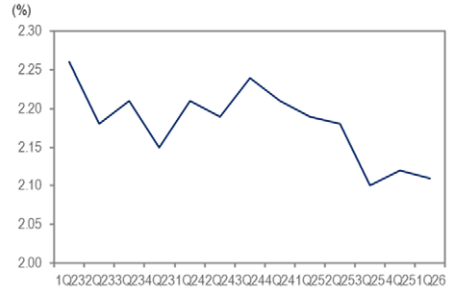
- Stronger-than-expected non-interest income growth.
- Provision write-backs from robust provision buffers.
- Capital management upside.

Key Assumptions

(%)	2026F	2027F	2028F
Loan Growth	5.0	5.5	6.0
Credit Cost (bp)	4.0	2.0	2.0
ROE	12.7	13.4	14.0

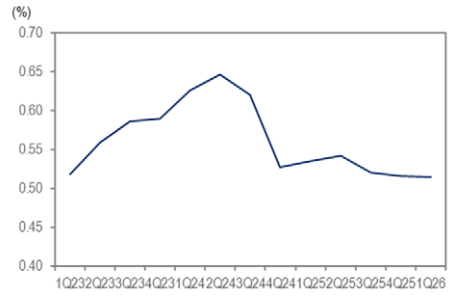
Source: Public Bank

NIM trend



Source: Public Bank

GIL Ratio Trend



Source: Public Bank

Environmental, Social, Governance (ESG) Updates

Environmental
- Green loan commitment. Launched a campaign in 2020 offering preferential rates for selected energy efficient vehicles (EEV) under its AITAB Hire Purchase-i, to promote the usage of EEVs. - Paperless initiative. Moving towards paperless operations with its enhanced Go Green initiatives in its daily operations, such as migrating reports to online verification module, issuing electronic statements and notices as well as introducing electronic signatures (eSignature) in new deposit account openings.
Social
- Board and upper management gender diversity. Maintained 33% female directors on the Board and 48% for top and senior management.
Governance
- Non-independent board of directors composition. Composition of Independent Non-Executive Directors – 55%.

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Interest income	18,896	17,546	18,605	19,731
Interest expense	(9,312)	(7,576)	(8,033)	(8,513)
Net interest income	9,584	9,971	10,572	11,217
Fees & commissions	2,226	2,404	2,572	2,752
Net Trading Income	739	773	808	846
Other income	3,272	3,499	3,719	3,953
Income from Islamic banking	1,839	1,931	2,028	2,129
Total income	14,695	15,401	16,319	17,300
Staff costs	(3,696)	(3,807)	(3,997)	(4,277)
Other operating expense	(1,433)	(1,540)	(1,596)	(1,633)
Pre-provision profit	9,566	10,054	10,726	11,389
Loan loss provision	(67)	(189)	(100)	(106)
Other provisions	(13)	0	0	0
Associated companies	56	62	68	75
Pre-tax profit	9,543	9,927	10,694	11,358
Tax	(2,136)	(2,222)	(2,393)	(2,542)
Minorities	(183)	(6)	(6)	(5)
Net profit	7,224	7,699	8,294	8,811
Net profit (adj.)	7,224	7,699	8,294	8,811

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Cash with central bank	4,441	9,450	10,017	10,618
Govt treasury bills & securities	24,520	25,010	25,511	26,021
Interbank loans	0	0	0	0
Customer loans	442,333	469,297	497,878	528,274
Investment securities	60,478	65,361	70,597	76,211
Derivative receivables	225	318	411	504
Associates & JVs	441	495	544	598
Fixed assets (incl. prop.)	1,310	1,510	1,710	1,910
Other assets	27,903	35,294	50,399	107,994
Total assets	561,651	606,735	657,066	752,131
Interbank deposits	14,625	15,894	17,274	18,772
Customer deposits	447,114	474,835	504,274	534,531
Derivative payables	156	159	162	165
Debt equivalents	642	577	520	468
Other liabilities	36,673	51,923	70,527	132,872
Total liabilities	499,210	543,388	592,756	686,808
Shareholders' funds	59,938	60,837	61,794	62,802
Minority interest - accumulated	2,504	2,510	2,516	2,521
Total equity & liabilities	561,651	606,735	657,066	752,131

Operating Ratios

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Capital Adequacy				
Tier-1 CAR	13.9	15.2	14.7	13.9
Total CAR	16.6	17.3	16.7	15.8
Total assets/equity (x)	9.4	10.0	10.6	12.0
Tangible assets/tangible common equity (x)	9.8	10.5	11.3	12.7
Asset Quality				
NPL ratio	0.5	0.5	0.5	0.5
Loan loss coverage	149.9	142.2	126.4	108.3
Loan loss reserve/gross loans	0.8	0.7	0.6	0.5
Increase in NPLs	2.7	(1.3)	4.4	3.2
Credit cost (bp)	1.8	4.0	2.0	2.0
Liquidity				
Loan/deposit ratio	98.9	98.8	98.7	98.8
Liquid assets/short-term liabilities	6.3	7.0	6.8	6.6
Liquid assets/total assets	5.2	5.7	5.4	4.9

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Growth				
Net interest income, yoy chg	1.4	4.0	6.0	6.1
Fees & commissions, yoy chg	1.8	8.0	7.0	7.0
Pre-provision profit, yoy chg	4.2	5.1	6.7	6.2
Net profit, yoy chg	1.1	6.6	7.7	6.2
Net profit (adj.), yoy chg	1.1	6.6	7.7	6.2
Customer loans, yoy chg	5.2	6.1	6.1	6.1
Customer deposits, yoy chg	3.2	6.2	6.2	6.0
Profitability				
Net interest margin	2.1	2.1	2.1	2.1
Cost/income ratio	34.9	34.7	34.3	34.2
Adjusted ROA	1.3	1.3	1.3	1.3
Reported ROE	12.1	12.7	13.4	14.0
Adjusted ROE	12.1	12.7	13.4	14.0
Valuation				
P/BV (x)	1.6	1.5	1.5	1.5
P/NTA (x)	1.6	1.6	1.6	1.6
Adjusted P/E (x)	13.0	12.2	11.3	10.6
Dividend Yield	4.7	6.2	6.6	7.0
Payout ratio	60.5	75.0	75.0	75.0

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